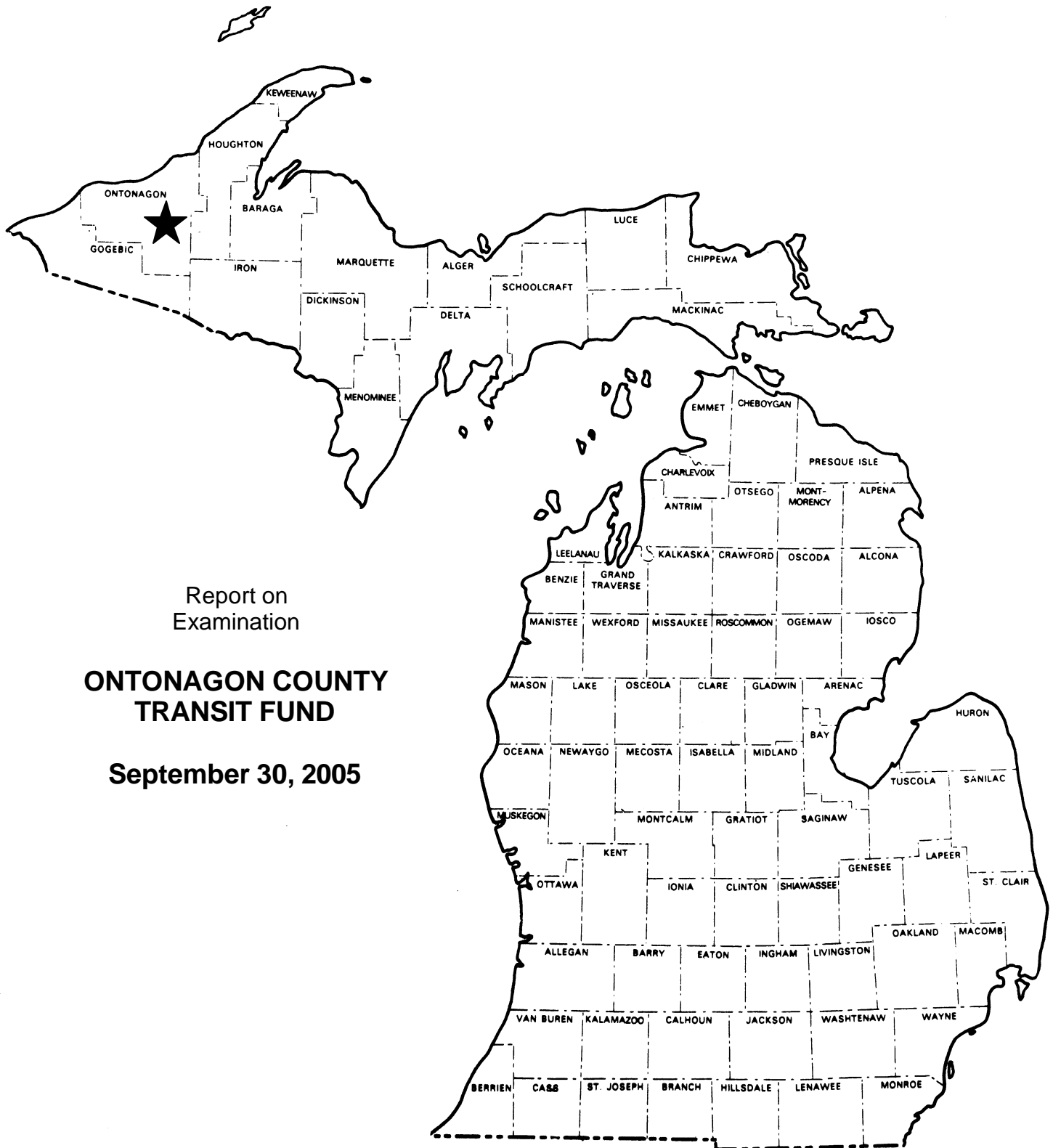


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**ONTONAGON COUNTY
TRANSIT FUND**

September 30, 2005

**Local Audit and Finance Division
Bureau of Local Government Services**

ONTONAGON COUNTY TRANSIT FUND

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| MANAGEMENT’S DISCUSSION AND ANALYSIS | 1 |
| <u>BASIC FINANCIAL STATEMENTS</u> | |
| EXHIBIT A--Governmental Fund Balance Sheet--Statement of Net Assets..... | 6 |
| EXHIBIT B--Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance--Statement of Activities | 7 |
| EXHIBIT C--Statement of Revenues, Expenditures, and Changes in Fund Balance--Budget and Actual--General Operating Fund | 8 |
| NOTES TO FINANCIAL STATEMENTS..... | 9 |
| EXHIBIT D--Schedule of Revenues--Budget and Actual--General Operating Fund | 18 |
| EXHIBIT E--Schedule of Expenditures--Budget and Actual--General Operating Fund | 19 |
| <u>SUPPLEMENTAL INFORMATION AND SCHEDULES</u> | |
| SCHEDULE 1--Operating Expenditures..... | 20 |
| SCHEDULE 2--Net Eligible Cost Computations of General Operations | 21 |
| SCHEDULE 3--Mileage Data--Unaudited..... | 22 |
| SCHEDULE 4--Expenditures of Federal and State Awards | 23 |
| Notes to Schedule of Expenditures of Federal and State Awards | 24 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With <u>Government Auditing Standards</u> | 25 |



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

December 9, 2005

Ontonagon County Public Transit
Ontonagon County Board of Commissioners
Ontonagon County Courthouse
725 Greenland Road
Ontonagon, Michigan 49953

RE: Unqualified Opinions on Basic Financial Statements and Supplementary
Schedule of Expenditures of Federal and State Awards--Governmental Entity

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the Ontonagon County Public Transit Fund, a blended component unit of Ontonagon County, Michigan, as of and for the year ended September 30, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the Ontonagon County's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ontonagon County Public Transit as of September 30, 2005, the changes in financial position, and the budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 2005 on our consideration of the Ontonagon County Public Transit's internal control over financial reporting and our tests on its compliance and other matters with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 1 thru 5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Ontonagon County Public Transit, taken as a whole. The accompanying exhibits D and E and Schedules 1 through 3 are presented for the purposes of additional analysis and are not a required part of the financial statements of the Ontonagon County Public Transit. The accompanying Schedule of Expenditures of Federal and State Awards (Schedule 4) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for that portion marked "unaudited," (Schedule 3) on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

ONTONAGON COUNTY PUBLIC TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

Our discussion and analysis of the Ontonagon County Public Transit's financial performance provides an overview of the Transit System's financial activities for the fiscal year ended September 30, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Transit System and present a longer-term view of the Transit System's finances.

Overview of the Financial Statements

This annual report consists of three parts--Management's Discussion and Analysis (this section), the basic financial statements, and an additional section that presents supplemental information and schedules. The basic financial statements include two kinds of statements that present different views of the Transit System:

- The first two statements are financial statements that provide both long-term and short-term information about the Transit System's overall financial status. These statements report information about the Transit System as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Transit System's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The two statements report the Transit System's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Transit System's financial health or position.

Reporting the Transit System as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Transit System, as a whole, and about its activities in a way that helps answer the question of whether the Transit System, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Transit System's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received or paid.

The two statements, mentioned above, report the Transit System's net assets and how they have changed. The reader can think of the Transit System's net assets (the difference between assets and liabilities) as one way to measure the Transit System's financial health or financial position. Over time, increases or decreases in the Transit System's net assets are one indicator of whether

ONTONAGON COUNTY PUBLIC TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS

its financial health is improving or deteriorating, respectively. To assess the overall health of the Transit System you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Transit System's fleet and changes in the laws related to the operating assistance received from the Federal and State government.

Financial Analysis of the Transit System as a Whole

The Transit System's net assets decreased approximately 3.6%, or \$30,847, from \$852,452 to \$821,605 for the year ended September 30, 2005. The net assets and change in net assets are summarized below.

Net Assets

The overall financial position has declined in 2005. The restricted net assets increased by \$35,430 and the investment in capital assets decreased by \$66,277 during 2005. The reason for increase in the restricted net assets is the property tax revenue due to the 1 mill that is now being collected versus ½ mill in the previous year. The reason for the decline in the invested in capital assets is due to the depreciation on the capital assets.

The net assets as of year ended September 30, 2005 are as follows:

| | <u>2004</u> | <u>2005</u> | <u>Variance</u> | <u>%</u> |
|----------------------------|--------------------------|--------------------------|---------------------------|----------------------|
| Current and Other Assets | \$ 142,955 | \$ 161,571 | \$ 18,616 | 13.02% |
| Capital Assets | <u>706,332</u> | <u>688,473</u> | <u>(17,859)</u> | <u>-2.53%</u> |
| Total Assets | <u>849,287</u> | <u>850,044</u> | <u>757</u> | <u>0.09%</u> |
| Current Liabilities | 32,471 | 15,304 | (17,167) | -52.87% |
| Long-Term Liabilities | <u>12,782</u> | <u>13,135</u> | <u>353</u> | <u>2.76%</u> |
| Total Liabilities | <u>45,253</u> | <u>28,439</u> | <u>(16,814)</u> | <u>-37.16%</u> |
| Net Assets | | | | |
| Invested in Capital Assets | 754,750 | 688,473 | (66,277) | -8.78% |
| Restricted | <u>97,702</u> | <u>133,132</u> | <u>35,430</u> | <u>36.26%</u> |
| Total Net Assets | <u><u>\$ 852,452</u></u> | <u><u>\$ 821,605</u></u> | <u><u>\$ (30,847)</u></u> | <u><u>-3.62%</u></u> |

ONTONAGON COUNTY PUBLIC TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

| | <u>2004</u> | <u>2005</u> | <u>Variance</u> | <u>%</u> |
|------------------------------------|-------------------|-------------------|-----------------|-----------------|
| Program Revenue | | | | |
| Charges for Services | \$ 67,232 | \$ 75,177 | \$ 7,945 | 11.82% |
| Operating Grants and Contributions | 229,387 | 240,336 | 10,949 | 4.77% |
| Capital Grants and Contributions | 74,953 | 3,462 | (71,491) | -95.38% |
| General Revenue | | | | |
| Property Tax | 92,334 | 195,759 | 103,425 | 112.01% |
| Interest | 1,371 | 1,746 | 375 | 27.35% |
| State Single Business Tax | <u>920</u> | <u></u> | <u>(920)</u> | <u>-100.00%</u> |
| Total Revenue | <u>466,197</u> | <u>516,480</u> | <u>50,283</u> | <u>10.79%</u> |
| Operating Expense | | | | |
| Salaries and Wages | 347,996 | 375,560 | 27,564 | 7.92% |
| Depreciation | 69,392 | 69,739 | 347 | 0.50% |
| Other | <u>85,894</u> | <u>102,028</u> | <u>16,134</u> | <u>18.78%</u> |
| Total Operating Expense | <u>503,282</u> | <u>547,327</u> | <u>44,045</u> | <u>8.75%</u> |
| Decrease in Net Assets | (37,085) | (30,847) | 6,238 | -16.82% |
| Beginning Net Assets | <u>841,119</u> | <u>852,452</u> | <u>11,333</u> | <u>1.35%</u> |
| Ending Net Assets | <u>\$ 852,452</u> | <u>\$ 821,605</u> | <u>(30,847)</u> | <u>-3.62%</u> |

The tax revenues increased as stated above due to the 1 mill now being collected while the capital grants declined as the transit system received grant money last year to purchase a new bus. The salaries expense increased due to the rising costs of health insurance and the other operating costs increased with the rising fuel costs.

ONTONAGON COUNTY PUBLIC TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

| | 2004 | 2005 | Variance | % |
|---|------------------|-------------------|-----------------|----------------|
| Revenues | | | | |
| Taxes | \$ 92,334 | \$ 195,759 | \$ 103,425 | 112.01% |
| Federal Grants | 109,665 | 62,020 | (47,645) | -43.45% |
| State Grants | 195,595 | 181,778 | (13,817) | -7.06% |
| Charges for Services | 64,774 | 72,512 | 7,738 | |
| Interest and Rentals | 1,371 | 1,746 | 375 | 27.35% |
| Other | 2,458 | 2,665 | 207 | 8.42% |
| Total Revenue | <u>466,197</u> | <u>516,480</u> | <u>50,283</u> | <u>10.79%</u> |
| Expenditures | | | | |
| Salaries, Wages, and Fringes | 347,996 | 375,560 | 27,564 | 7.92% |
| Services | 6,363 | 7,310 | 947 | 14.88% |
| Materials and Supplies Consumed | 36,003 | 45,042 | 9,039 | 25.11% |
| Utilities | 10,461 | 11,661 | 1,200 | 11.47% |
| Casualty and Liability Costs | 14,617 | 19,443 | 4,826 | 33.02% |
| County Central Services Costs | 14,776 | 3,130 | (11,646) | -78.82% |
| Other | 3,674 | 15,442 | 11,768 | 320.30% |
| Capital Outlay | 74,953 | 3,462 | (71,491) | -95.38% |
| Total Operating Expense | <u>508,843</u> | <u>481,050</u> | <u>(27,793)</u> | <u>-5.46%</u> |
| Excess of Revenues Over (Under) Expenditure | (42,646) | 35,430 | 78,076 | -183.08% |
| Beginning Fund Balance | <u>140,348</u> | <u>97,702</u> | <u>(42,646)</u> | <u>-30.39%</u> |
| Ending Fund Balance | <u>\$ 97,702</u> | <u>\$ 133,132</u> | <u>35,430</u> | <u>36.26%</u> |

Budgetary Highlights

Prior to the beginning of any year, the Transit System's budget is compiled based upon certain assumptions and facts available at that time. The final budget for 2005 was \$635,692. The revenues exceeded expenses this year despite increased fuel costs, utilities, labor, and increasing health care premiums, as well as declining State Operating Assistance because of the increased millage.

ONTONAGON COUNTY PUBLIC TRANSIT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

At September 30, 2005, the Transit System had \$688,473 invested in capital assets. This amount represents a net decrease (including additions and deductions) of \$66,276 or 9.63% as follows:

| | <u>2004</u> | <u>2005</u> | <u>Total Percentage Change 2004-2005</u> |
|----------------------------------|--------------------------|--------------------------|--|
| Capital Assets Being Depreciated | | | |
| Building | \$ 640,735 | \$ 644,198 | 0.54% |
| Vehicles | 347,490 | 347,490 | 0.00% |
| Land Improvements | <u>26,536</u> | <u>26,536</u> | <u>0.00%</u> |
| Total Capital Assets | <u>1,014,761</u> | <u>1,018,224</u> | <u>0.34%</u> |
| Total Accumulated Depreciation | <u>260,012</u> | <u>329,751</u> | <u>21.15%</u> |
| Total Net Capital Assets | <u><u>\$ 754,749</u></u> | <u><u>\$ 688,473</u></u> | <u><u>-9.63%</u></u> |

Please refer to the notes to the financial statements for more detailed information.

Economic Factors and Next Year's Budget

The 2006 budget will decrease to \$515,743 as transit system is no longer budgeting for special contracts or capital improvements due to the uncertainty of actually receiving the grants. However, the transit system is attempting to further monitor the budget due to increases in fuel costs, utilities, labor and fringe benefit programs that continue to drive up the cost of providing public transit. To offset the increasing costs, the Transit System will have to continue levying the one mill to increase the local share of revenue to the system and to help offset unstable State and Federal Assistance.

Contacting the Transit System's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Transit System's finances and to show the accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Ontonagon County Clerk's Office at: 725 Greenland Road, Ontonagon, Michigan 49953.

ONTONAGON COUNTY PUBLIC TRANSIT FUND
GOVERNMENTAL FUNDS BALANCE SHEET
STATEMENT OF NET ASSETS
September 30, 2005

EXHIBIT A

| <u>ASSETS</u> | Modified Accrual Basis | Adjustments | Statement of Net Assets |
|----------------------------|------------------------------|-------------|-------------------------------|
| Cash | \$ 16,873 | | \$ 16,873 |
| Certificates of Deposit | 100,000 | | 100,000 |
| Due From State of Michigan | 34,042 | | 34,042 |
| Accounts Receivable | 6,992 | | 6,992 |
| Prepaid Expense | 3,664 | | 3,664 |
| Capital Assets | | \$ 688,473 | 688,473 |
| Total Assets | \$ 161,571 | \$ 688,473 | \$ 850,044 |

LIABILITIES

| | | | |
|--------------------------|----------|------|----------|
| Current Liabilities | | | |
| Accounts Payable | \$ 8,115 | | \$ 8,115 |
| Due to State of Michigan | 3,072 | | 3,072 |
| Accrued Wages Payable | 4,117 | | 4,117 |
| Accrued Benefits Payable | 13,135 | | 13,135 |
| Total Liabilities | 28,439 | \$ - | 28,439 |

FUND BALANCE/NET ASSETS

| | | | |
|---|-------------------|-------------------|-------------------|
| Fund Balance | 133,132 | (133,132) | - |
| Total Fund Equities | 133,132 | (133,132) | - |
| Total Liabilities and Fund Balance | <u>\$ 161,571</u> | <u>(133,132)</u> | <u>28,439</u> |
| Net Assets | | | |
| Invested in Capital Assets--Net of Related Debt | | 688,473 | 688,473 |
| Restricted | | 133,132 | 133,132 |
| Total Net Assets | | <u>\$ 821,605</u> | <u>\$ 821,605</u> |

Reconciliation of Government-Wide and Fund Financial Statements

| | |
|--|-------------------|
| Total Fund Balance--Modified Accrual Basis | \$ 133,132 |
| Amounts reported in the statement of net assets are different because: | |
| Capital assets are not financial resources and are not reported in the funds | <u>688,473</u> |
| Total Net Assets--Full Accrual Basis | <u>\$ 821,605</u> |

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY PUBLIC TRANSIT FUND
STATEMENT OF GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2005

EXHIBIT B

| | Modified Accrual Basis | Adjustments | Statement of Net Assets |
|--|------------------------------|-------------|-------------------------------|
| Revenues | | | |
| Property Taxes | \$ 195,759 | | \$ 195,759 |
| Federal Grants | 62,020 | | 62,020 |
| State Grants | 181,778 | | 181,778 |
| Charges for Services | 72,512 | | 72,512 |
| Interest and Rents | 1,746 | | 1,746 |
| Other | 2,665 | | 2,665 |
| Total Revenue | 516,480 | \$ - | 516,480 |
| Expenditures | | | |
| Public Works | 477,588 | 69,739 | 547,327 |
| Capital Outlay | 3,462 | (3,462) | - |
| Total Expenditures | 481,050 | 66,277 | 547,327 |
| Excess of Revenues Over (Under) Expenditures/Change in Net Assets | 35,430 | (66,277) | (30,847) |
| Fund Balance/Net Assets--Beginning of Year | 97,702 | 706,332 | 804,034 |
| Restatement to Fund Balance/Net Assets | | 48,418 | 48,418 |
| Restated Fund Balance/Net Assets | 97,702 | 754,750 | 852,452 |
| Fund Balance/Net Assets--End of Year | \$ 133,132 | \$ 688,473 | \$ 821,605 |

Reconciliation of Government-Wide and Fund Financial Statements

Net Change in Fund Balance-Modified Accrual Basis \$ 35,430

Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenues, expenditures, and changes in fund balance; in the statement activities these costs are allocated over the estimated useful lives as depreciation:

| | |
|----------------|----------|
| Capital Outlay | 3,462 |
| Depreciation | (69,739) |

Change in Net Assets-Full Accrual Basis \$ (30,847)

The Notes to Financial Statements are an integral part of the statement.

ONTONAGON COUNTY PUBLIC TRANSIT FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES--BUDGET AND ACTUAL
GENERAL OPERATING FUND
For the Year Ended September 30, 2005

EXHIBIT C

| | GENERAL OPERATING FUND | | | |
|--|-------------------------------|-----------------|------------|--|
| | Orginal Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues | | | | |
| Property Taxes | \$ 189,850 | \$ 189,850 | \$ 195,759 | \$ 5,909 |
| Federal Grants | 150,728 | 150,728 | 62,020 | (88,708) |
| State Grants | 219,682 | 219,682 | 181,778 | (37,904) |
| Charges for Services | 69,750 | 74,432 | 72,512 | (1,920) |
| Interest and Rents | 1,000 | 1,000 | 1,746 | 746 |
| Other | - | - | 2,665 | 2,665 |
| Total Revenue | 631,010 | 635,692 | 516,480 | (119,212) |
| Expenditures | | | | |
| Public Works | 465,822 | 470,504 | 477,588 | (7,084) |
| Capital Outlay | 121,000 | 121,000 | 3,462 | 117,538 |
| Total Expenditures | 586,822 | 591,504 | 481,050 | 110,454 |
| Excess of Revenues Over (Under) Expenditures | 44,188 | 44,188 | 35,430 | (8,758) |
| Fund Balance--October 1, 2004 | 97,702 | 97,702 | 97,702 | - |
| Fund Balance--September 30, 2005 | \$ 141,890 | \$ 141,890 | \$ 133,132 | \$ (8,758) |

The Notes to Financial Statements are an integral part of the statement.

ONTONAGON COUNTY PUBLIC TRANSIT

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on the above criteria, these financial statements present the Ontonagon County Public Transit Fund, a blended component unit of Ontonagon County.

The Ontonagon County Public Transit Fund is, for financial reporting purposes, within generally accepted accounting principles, a special revenue fund of Ontonagon County. The financial statements herein present the financial operations of the Public Transit Fund which is used to account for the revenues and expenditures of the Ontonagon County Public Transit System. Revenue is derived primarily from a special voted property tax millage, State and Federal aid, and farebox fees which are earmarked for the operation and maintenance of the transit system. The Ontonagon County Public Transit System is administered by the Ontonagon County Board of Commissioners to provide public transportation services within the boundaries of Ontonagon County.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Revenues, Expenditures and changes in Fund Balance) report information of the activities of the Ontonagon County Transit Fund. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Transit Fund's assets and liabilities with the difference being reported as either invested in capital assets or restricted net assets.

The Statement of Activities demonstrates the degree to which the operating expenses of a given function or segment are offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function or segment. Operating revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among operating revenues are reported instead as nonoperating revenue.

ONTONAGON COUNTY PUBLIC TRANSIT

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund--Special Revenue Fund

Special revenue funds are used to account for specific revenue derived from State and Federal grants, tax millages and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the operating fund in the government-wide financial statements. Capital assets are stated at historical cost. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

| | |
|-----------------------|----------------|
| Operating Facility | 12 to 20 years |
| Buses | 3 to 7 years |
| Maintenance Equipment | 3 to 10 years |
| Office Equipment | 6 to 10 years |

Property Tax Revenues

The county property taxes are levied on each December 1st on the State equalized valuation of property located in the county as of the preceding December 31st.

The county's 2004 ad valorem tax was levied and collectible on December 1, 2004. It is the county's policy to recognize revenues from the current tax levy in the Transit System's 2004-05 fiscal year when the proceeds of this levy are budgeted and made available for the financing of the Public Transit System's operations.

The 2004 taxable valuation of Ontonagon County amounted to \$189,608,895, on which ad valorem taxes of 1.000 mills were levied for County Public Transit Fund operating purposes.

ONTONAGON COUNTY PUBLIC TRANSIT

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cost Allocation Plans

Ontonagon County has prepared and submitted to the Passenger Transportation Division (PTD), Michigan Department of Transportation (MDOT), a central services cost allocation plan to document those general fund costs which should be allocated to the various Federal and State grant programs. This plan has been adhered to in the preparation of the financial statements. The amount of \$15,442 was paid to the General Fund by the Public Transit Fund for the 2005 fiscal year central services charges.

Budgets and Budgetary Accounting

The budget is adopted by the county board of commissioners for the Public Transit Fund. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for this fund.

Budgeted revenues and expenditures, as presented in Exhibit C, include any authorized amendments to the original budget as adopted.

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles (GAAP), requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C--CASH DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits of the county are at various banks in the name of the county treasurer. Michigan Compiled Laws (MCL), Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The county's deposits and investments are in accordance with statutory authority and the county has adopted an investment policy in accordance with Public Act 20 of 1943, as amended. The Public Transit Fund monies are deposited to the county's common bank accounts along with the monies of several other county funds. The risk disclosures for the County Public Transit Fund's deposits at September 30, 2005, as

ONTONAGON COUNTY PUBLIC TRANSIT

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH DEPOSITS AND INVESTMENTS (Continued)

required by the Governmental Accounting Standards Board (GASB) Statement No. 40, are not available because the fund's cash deposits are part of the county's general bank accounts. However, we estimate that approximately 26% of the county's bank account balances are covered by FDIC insurance at September 30, 2005. The cash carrying balance at September 30, 2005 was \$116,823.

Investments Authorized by the Transit's Investment Policy

The Transit's investment policy authorizes investment in all those that are authorized by law. As stated above, the Transit did not have any investments in the fiscal year ended September 30, 2005.

The Transit's investment policy does not contain specific provisions to limit the Transit's exposure to credit risk. The policy does contain provisions to limit the Transit's exposure to concentration of credit risk.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Transit's investment policy does not contain specific provisions to limit the Transit's exposure to interest rate risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater. The Transit's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over-concentration in a specific maturity, individual financial institution(s), or a specific class of securities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Transit's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

ONTONAGON COUNTY PUBLIC TRANSIT

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH DEPOSITS AND INVESTMENTS (Continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law does not contain legal requirements that would limit the exposure to custodial credit risk for investments. However, the Transit's investment policy does contain a safekeeping and custody section that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The Transit is not exposed to custodial credit risk for investments.

NOTE D--DUE FROM STATE

The following amounts recorded as "due from" the Michigan Department of Transportation on September 30, 2005 represent amounts earned but not yet received on the respective Federal and State grant contracts and agreements.

| | |
|---|------------------|
| Federal Section 5311 Operating Assistance | |
| 2004-05 Contract #02-0077/Z7 | \$ 24,182 |
| State Operating Assistance | |
| 2002-03 Operating Assistance | 4,217 |
| 2003-04 Operating Assistance | 1,574 |
| 2004-05 Operating Assistance | <u>4,069</u> |
| Total | <u>\$ 34,042</u> |

The above receivables and related program revenues are subject to adjustments resulting from program compliance audits by the Michigan Department of Transportation that have not yet been finalized.

ONTONAGON COUNTY PUBLIC TRANSIT

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS

The following is a summary of the changes in the capital assets:

| | Account Balances 10/01/04 | Additions | Deductions | Account Balances 09/30/05 |
|---|---------------------------------|-----------|------------|---------------------------------|
| Capital Assets Being Depreciated | | | | |
| Transit | | | | |
| Land Improvements | \$ 26,536 | | | \$ 26,536 |
| Buildings | 640,735 | \$ 3,462 | | 644,197 |
| Vehicles | 347,491 | | | 347,491 |
| Total Capital Assets | 1,014,762 | 3,462 | \$ - | 1,018,224 |
| Accumulated Depreciation | 200,678 | | | |
| Transit | | | | |
| Land Improvements | 1,327 | 1,327 | | 2,654 |
| Buildings | 64,074 | 21,704 | | 85,778 |
| Vehicles | 194,611 | 46,708 | | 241,319 |
| Total Accumulated Depreciation | 260,012 | 69,739 | - | 329,751 |
| Capital Assets Net of Accumulated Depreciation | \$ 754,750 | \$ - | \$ - | \$ 688,473 |

NOTE F--DUE TO THE STATE

The following amounts recorded as “due to” the Michigan Department of Transportation on September 30, 2005 represent amounts overpaid on the respective State grant contracts and agreements, based on audited eligible costs.

| | |
|---|----------|
| Federal Section 5311 Operating Assistance | |
| 2002-03 Contract #02-077/Z3 | \$ 300 |
| State Operating Assistance--2001/02 | 2,772 |
| Total | \$ 3,072 |

The above payables and related program revenues are subject to adjustments resulting from program compliance audits by the Michigan Department of Transportation, which have not yet been finalized.

ONTONAGON COUNTY PUBLIC TRANSIT

NOTES TO FINANCIAL STATEMENTS

NOTE G--COMPENSATED ABSENCES

Vacation Benefit Policies

The county's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Vacation benefits are earned and credited to each employee on a biweekly basis. Employees are permitted to maintain an accumulation of up to 1 year's vacation benefits.

Sick Leave Benefit Policies

The county's employment policies provide for sick leave benefits to be earned at the rate of 1 day per month, with a maximum accumulation of 100 days. When county general and public transit employees separate from employment with the county, for whatever reason, they shall be paid for 20% of all unused sick days to a maximum of 100 days.

The accrued liability for accumulated and vested vacation and sick leave benefits is recorded in the Public Transit Fund's financial statements as of September 30, 2005.

NOTE H--RISK MANAGEMENT

The Ontonagon County Transit is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The county carries commercial insurance for all losses. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 years.

NOTE I--EMPLOYEES' RETIREMENT PLAN

Description of Plan and Plan Assets

Ontonagon County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 447 North Canal Street, Lansing, Michigan, 48917-9755.

ONTONAGON COUNTY PUBLIC TRANSIT

NOTES TO FINANCIAL STATEMENTS

NOTE I--EMPLOYEES' RETIREMENT PLAN (Continued)

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the county's competitive bargaining units. The calendar year 2004 required pension contributions were 12.42%.

Annual Pension Cost

For the calendar year ended December 31, 2004, the county's annual pension cost was \$177,202 which was equal to the county's required and actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB No. 27

| <u>Year Ended Dec 31</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|----------------------------------|--|--|---------------------------------------|
| 2002 | \$ 129,707 | 100% | \$0 |
| 2003 | 157,094 | 100% | 0 |
| 2004 | 177,202 | 100% | 0 |

Required Supplementary Information for GASB Statement No. 27

| <u>Actuarial Valuation December 31</u> | <u>(1) Actuarial Value of Assets</u> | <u>(2) Actuarial Accrued Liability (AAL)</u> | <u>(3) Overfunded (Unfunded) AAL (UAAL) (1) - (2)</u> | <u>(4) Funded Ratio (1) / (2)</u> | <u>(5) Covered Payroll</u> | <u>(6) UAL as a % of Covered Payroll</u> |
|--|--|--|---|---|------------------------------------|--|
| 2002 | \$ 3,985,661 | \$ 5,030,211 | \$ (1,044,550) | 79% | \$ 1,378,927 | 76% |
| 2003 | 4,305,536 | 5,459,056 | (1,153,520) | 79% | 1,323,550 | 87% |
| 2004 | 4,589,928 | 5,860,425 | (1,270,497) | 78% | 1,415,133 | 90% |

ONTONAGON COUNTY PUBLIC TRANSIT

NOTES TO FINANCIAL STATEMENTS

NOTE J--RESTATEMENT TO NET ASSETS

During the 2004 audit, a bus purchased in 2004 was omitted from the capital asset list. The net assets of the Transit System have been restated to now include the omitted asset.

| | |
|---|--------------------------|
| Net Assets: September 30, 2004: | \$ 804,034 |
| Omitted Bus | <u>48,418</u> |
| Restated Net Assets: September 30, 2004 | <u><u>\$ 852,452</u></u> |

ONTONAGON COUNTY PUBLIC TRANSIT FUND
SCHEDULE OF REVENUES
BUDGET AND ACTUAL--GENERAL OPERATING FUND
For the Fiscal Year Ended September 30, 2005

EXHIBIT D

| | Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|--------------------|-----------------|------------|--|
| Property Taxes | \$ 189,850 | \$ 189,850 | \$ 195,759 | \$ 5,909 |
| Federal Grants | | | | |
| Section 5311 Operating Assistance | | | | |
| Contract #02-0077/Z7 | 50,428 | 50,428 | 57,926 | 7,498 |
| Prior Years' Operating Assistance Adjustments | | | (1,256) | (1,256) |
| RTAP Training Funds | 3,500 | 3,500 | 2,580 | (920) |
| Section 5309/5311 Capital Program | 96,800 | 96,800 | 2,770 | (94,030) |
| Total Federal Grants | 150,728 | 150,728 | 62,020 | (88,708) |
| State Grants | | | | |
| FY 05 Formula Operating Assistance | 194,482 | 194,482 | 181,086 | (13,396) |
| Section 5311 Capital Assistance | 24,200 | 24,200 | 692 | (23,508) |
| State Single Business Tax | 1,000 | 1,000 | - | (1,000) |
| Total State Grants | 219,682 | 219,682 | 181,778 | (37,904) |
| Charges for Services | | | | |
| Sale of Scrap and Salvage | 3,000 | 3,000 | - | (3,000) |
| Sale of Maintenance Services | 1,750 | 1,750 | 1,414 | (336) |
| Sale of Advertising Space | 3,000 | 3,000 | 1,584 | (1,416) |
| Demand Response Fares | 62,000 | 66,682 | 69,514 | 2,832 |
| Total Charges for Services | 69,750 | 74,432 | 72,512 | (1,920) |
| Interest and Rents | | | | |
| Interest Earned | 1,000 | 1,000 | 1,746 | 746 |
| Total Interest and Rents | 1,000 | 1,000 | 1,746 | 746 |
| Other | | | | |
| Private Contributions | | | 25 | 25 |
| Insurance Recoveries | | | 2,640 | 2,640 |
| Total Other | - | - | 2,665 | 2,665 |
| Total Revenues | \$ 631,010 | \$ 635,692 | \$ 516,480 | \$ (119,212) |

ONTONAGON COUNTY PUBLIC TRANSIT FUND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL--GENERAL OPERATING FUND
For the Fiscal Year Ended September 30, 2005

EXHIBIT E

| | Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---------------------------------|--------------------|-------------------|-------------------|--|
| Public Works | | | | |
| Labor | \$ 222,466 | \$ 213,066 | \$ 224,804 | \$ (11,738) |
| Fringe Benefits | 147,736 | 154,136 | 150,756 | 3,380 |
| Services | 5,690 | 5,280 | 7,310 | (2,030) |
| Materials and Supplies Consumed | 40,785 | 50,012 | 45,042 | 4,970 |
| Utilities | 11,700 | 11,900 | 11,661 | 239 |
| Casualty and Liability Costs | 16,910 | 15,910 | 19,443 | (3,533) |
| Miscellaneous Expense | 4,535 | 4,200 | 3,130 | 1,070 |
| County Central Services Costs | 16,000 | 16,000 | 15,442 | 558 |
| Capital Outlay | 121,000 | 121,000 | 3,462 | 117,538 |
| Total Expenditures | <u>\$ 586,822</u> | <u>\$ 591,504</u> | <u>\$ 481,050</u> | <u>\$ 110,454</u> |

ONTONAGON COUNTY PUBLIC TRANSIT FUND
SCHEDULE OF OPERATING EXPENDITURES
For the Fiscal Year September 30, 2005

SCHEDULE 1

| | Operations | Maintenance | General Administration | Total System |
|------------------------------------|------------|-------------|---------------------------|-----------------|
| Labor | | | | |
| Operators' Wages | \$ 122,696 | | | \$ 122,696 |
| Other Salaries and Wages | | \$ 24,563 | \$32,636 | 57,199 |
| Dispatchers' Wages | 44,909 | | | 44,909 |
| Fringe Benefits | 111,195 | 19,750 | 19,811 | 150,756 |
| Services | 2,310 | | 5,000 | 7,310 |
| Materials and Supplies Consumed | | | | |
| Fuel and Lubricants | 33,667 | | | 33,667 |
| Tires and Tubes | 422 | | | 422 |
| Other Materials and Supplies | 733 | 5,704 | 4,516 | 10,953 |
| Utilities | 2,228 | | 9,433 | 11,661 |
| Casualty and Liability Costs | 19,409 | | 34 | 19,443 |
| Miscellaneous Expenses | | | | |
| Travel and Meetings | | | 2,430 | 2,430 |
| Association Dues and Subscriptions | | | 700 | 700 |
| County Central Services Costs | | | 15,442 | 15,442 |
| Total Operating Expenditures | \$ 337,569 | \$ 50,017 | \$90,002 | \$ 477,588 |

ONTONAGON COUNTY PUBLIC TRANSIT FUND
NET ELIGIBLE COSTS COMPUTATIONS
OF GENERAL OPERATIONS
For the Fiscal Year Ended September 30, 2005

SCHEDULE 2

| | Federal Section 5311 | State Operating Assistance |
|---|-------------------------|----------------------------------|
| Operating Expenditures | | |
| Labor | \$ 224,804 | \$ 224,804 |
| Fringe Benefits | 150,756 | 150,756 |
| Services | 7,310 | 7,310 |
| Materials and Supplies Consumed | 45,042 | 45,042 |
| Utilities | 11,661 | 11,661 |
| Casualty and Liability Costs | 19,443 | 19,443 |
| Miscellaneous | 3,130 | 3,130 |
| County Central Services Costs | 15,442 | 15,442 |
| Total Operating Expenditures | 477,588 | 477,588 |
| Less: Ineligible Expenditures | | |
| Cost of Maintenance Services Sales | 1,202 | 1,202 |
| Insurance and Bond Recoveries | 2,640 | 2,640 |
| Membership Dues | 48 | 48 |
| Audit | 3,976 | |
| Federal (RTAP) Training Funds | 2,580 | 2,580 |
| Net Eligible Expenditures | 467,142 | 471,118 |
| Federal Section 5311 Funding (12.40% x Net Eligible Expenditures) | <u>\$ 57,926</u> | |
| State Operating Assistance (38.437574823% x Net Eligible Expenditures) | | <u>\$ 181,086</u> |

**ONTONAGON COUNTY PUBLIC TRANSIT
MILEAGE DATA--(UNAUDITED)
For the Fiscal Year Ended September 30, 2005**

SCHEDULE 3

| | <u>Public Transportation Mileage</u> |
|------------------|--|
| Demand--Response | |
| First Quarter | 36,249 |
| Second Quarter | 41,234 |
| Third Quarter | 41,152 |
| Fourth Quarter | <u>41,100</u> |
| Total Operation | <u><u>159,735</u></u> |

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

ONTONAGON COUNTY PUBLIC TRANSIT FUND
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended September 30, 2005

SCHEDULE 4

| | Federal CFDA Number | State Grantor Number | Program or Award Amount | Federal Receipts/ Revenue | State Receipts/ Revenue | Disbursements/ Expenditures | Amount Remaining |
|--|---------------------------|----------------------------|-------------------------------|---------------------------------|-------------------------------|--------------------------------|---------------------|
| U.S. Department of Transportation Passed through Michigan Department of Transportation | | | | | | | |
| Federal and State Section 5309/5311 Capital Programs Parking Lot Paving and Storage Building | 20.509 | 02-0077/Z2 | \$ 30,000 | \$ 2,770 | \$ 692 | \$ 3,462 | \$ - |
| Federal and State Operating Assistance Computations Based on Net Eligible Federal and State Expenditures | | | | | | 471,118 | |
| Federal Operating Assistance Section 5311 Federal Training (RTAP) Funds | 20.509 | 02-0077/Z7 | 58,254 | 57,926 2,580 | | 2,580 | |
| State Operating Assistance Act 51 Formula Funding (FY 05) | N/A | N/A | 194,482 | | 181,086 | | |
| Total Department of Transportation | | | | \$ 63,276 | \$ 181,778 | \$ 477,160 | \$ - |

ONTONAGON COUNTY PUBLIC TRANSIT
NOTES TO SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE AWARDS

1. The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all Federal and State awards programs of the Ontonagon County Public Transit. Federal and State awards received directly from federal or state agencies, as well as Federal or State awards passed through other government agencies, are included on the schedule.
2. The accompanying Schedule of Expenditures of Federal and State Awards is presented using the accrual basis of accounting, which is described in Note B of the Transit System's basic financial statements.
3. Ontonagon County Public Transit only recognized \$57,926 of the maximum Section 5311 Reimbursement based on the net eligible costs computation presented as Schedule 2.
4. State operating assistance of \$181,086 was recognized based on the net eligible costs computation presented as Schedule 2. The actual revenue to be received from the State is uncertain because the revenue is based on a fixed amount of statewide available funding. It could be as low as the transit's 1997 floor amount or as high as the statutory cap of 60% of eligible operating expenses. MDOT will recalculate the state operating assistance percentage in Schedule 2, after audited close-outs, based on statewide eligible expenses.



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

December 9, 2005

Ontonagon County Public Transit
Ontonagon County Board of Commissioners
County Courthouse
725 Greenland Road
Ontonagon, Michigan 49953

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Board Members:

We have audited the basic financial statements of the Ontonagon County Public Transit Fund, a blended component unit of Ontonagon County, as of and for the year ended September 30, 2005, and have issued our report thereon dated December 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Ontonagon County Public Transit's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether the Ontonagon County Public Transit's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the management, the board of commissioners, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division